

BAE Systems (Property Investments) Limited

Annual Report and Financial Statements

31 December 2023

Registered number: 03653604

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**BAE Systems (Property Investments) Limited
Annual Report and Financial Statements
31 December 2023**

Contents

	Page
Strategic Report	1 - 3
Directors' Report	4 - 5
Directors' Responsibilities Statement	6
Independent Auditor's Report to the Members of BAE Systems (Property Investments) Limited	7 - 10
Income Statement and Statement of Comprehensive Income	11
Balance Sheet	12 - 13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 - 31

Strategic Report

for the year ended 31 December 2023

Review of business and principal activities

BAE Systems (Property Investments) Limited is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies. Its principal activity is investment in, and the leasing and management of, properties.

The Company has made a profit of £3,753k during 2023 (2022: £1,766k) and has net assets of £272,968k (2022: £269,100k), which is in line with the Company's business plan expectations. During the year the Company disposed of land at its site in Bishopton and also received a contractual payment with regards to previously disposed of land at Bridgwater, both generating a consideration of £8.2m which resulted in profit on disposal of £5.5m.

The Company continues the active management of part of the BAE Systems Group's UK property portfolio.

Key performance indicators (KPIs)

The Company is part of the BAE Systems Group and the key performance indicators used to monitor and review the business are set by the Group and discussed in more detail in the BAE Systems plc Annual Report 2023 (available at: www.baesystems.com/investors). The directors do not consider it necessary to provide additional key performance indicators at a company level for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

The Company's principal risks are identified below, along with their potential impact on the Company and how these are currently being managed:

Valuation of properties

Description: The fair market valuation of property may decrease due to physical damage to the property or a change in demand. Property valuation is impaired where the fair market value is less than its carrying value.

Impact: Once an impairment loss is recognised on one of the Company's assets, it reduces the carrying amount of that asset, which could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Directors actively review market conditions, the risk of decreasing fair values and the impact of such a loss. Where such losses could arise various options would be considered, including site disposal.

Property Dilapidations

Description: As the portfolio of property ages, increased maintenance charges are likely.

Impact: The cost of carrying out the repairs and maintenance could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Directors of the Company follow a five-year maintenance plan to mitigate this risk.

Land held for long term disposal

Description: There is a risk over time that values could decrease.

Impact: Investment property at these sites could be sold at a loss, could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

Mitigation: The Company actively reviews market conditions, regularly discusses with property developers and plans the appropriate time to market property for disposal

Strategic Report (continued)
for the year ended 31 December 2023

Section 172(1) statement

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That Section requires a director of a company to act in the way he considers, in good faith, would most likely promote the success of the Company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company.

Decision making

The BAE Systems Group's Operational Framework (the "Operational Framework") sets out the principles of good governance to which BAE Systems Group subsidiaries are required to adhere, together with BAE Systems Group's values, policies and processes. Decisions affecting a subsidiary are required to be taken in line with the Operational Framework, including in accordance with applicable delegations of authority.

Pursuant to the Operational Framework, BAE Systems' businesses each produce a strategic plan, a financial forecast for the current year and financial projections for the next five years. The Directors of the Company contribute towards this process for the respective businesses of the Company for which they are responsible and are also responsible for identifying and managing principal and emerging risks in such businesses. In so doing, the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long term reputation of the BAE Systems Group.

Employees

The Company does not have any employees.

Fostering business relationships with suppliers, customers and others

The Directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has close relationships with its customers, suppliers and industry partners which help us to effectively manage its properties to provide best value for the Group.

The community and the environment

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. The Company implements the requirements of the Group's Community Investment Policy, which is mandated through the Operational Framework and looks to ensure that we build and nurture mutually beneficial relationships between our business and local stakeholders including the communities in which we operate.

As a real estate manager, we recognise that our activities may have an impact on the environment – from the energy and resources we use to the waste that we generate. It is our aspiration to reduce the environmental impact of our operations, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Company implements the requirements of the Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and scope 2) by 2030 and its target of working towards a net zero value chain by 2050.

All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described on pages 59 to 60 and pages 48 to 55, respectively, of BAE Systems plc's 2023 Annual Report (available at: www.baesystems.com/investors).

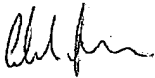
Strategic Report (continued)
for the year ended 31 December 2023

Maintaining a reputation for high standards of business conduct

The Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All directors and employees of the Group are expected to act in accordance with the requirements of Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure.

Detailed information on the BAE Systems Group-wide business conduct processes and policies is described on pages 62 to 65 in BAE Systems plc's 2023 Annual Report (available at: www.annualreport.baesystems.com/2023).

Approved by the Board and signed on its behalf by:



M H McGovern
Director

Date: 28 June 2024

Directors' Report

Company registration

BAE Systems (Property Investments) Limited is a private company, limited by shares and registered in England and Wales with the registered number 03653604.

Results and dividends

The Company's profit for the financial year is £3,753k (2022: £1,766k profit). The Directors do not propose a dividend for 2023 (2022: £nil).

Looking forward

The Company continues to manage its existing properties and the long-term disposal of its capital asset at Bishopton in line with the expectations. Real estate market conditions in the UK could impact performance, particularly in light of various developing macroeconomic factors, such as inflationary pressures, however the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Going concern

After making due enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operational existence for at least 12 months from the date of approval of the financial statements. The Company has net current assets of £13,721k, made a profit of £3,753k in the current year and is expected to be profitable in the future. In particular, the Company has sufficient net current assets in order to cover its liabilities for the next 12 months. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Credit risk and liquidity

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts.

Energy and carbon reporting exemption

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed on pages 48 to 55 and pages 232 to 235 of BAE Systems plc's 2023 Annual Report (available at www.baesystems.com/investors).

Engagement with suppliers, customers and others

Engagement with suppliers, customers and others has been considered within the Strategic Report on page 2.

Directors' Report (continued)

Directors and their interests

The directors who served throughout the year and up to the date of this Directors' Report, unless otherwise stated, were as follows:

C J S McComb
D A Green (resigned 02 October 2023)
M H McGovern (appointed 29 September 2023)
A-L Holding
D S Parkes (resigned 31 May 2024)

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

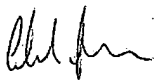
Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

The auditor, Deloitte LLP, has indicated its willingness to continue in office and, in accordance with Section 487(2) of the Companies Act 2006, has been re-appointed.

Approved by the Board and signed on its behalf by:



M H McGovern
Director

Date: 28 June 2024

Registered office:
BAE Systems (Property Investments) Limited
Victory Point
Lyon Way
Frimley
Camberley
Surrey
GU16 7EX
England

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of BAE Systems (Property Investments) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BAE Systems (Property Investments) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement and Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

**Independent Auditor's Report to the Members of BAE Systems (Property Investments) Limited
(continued)**

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

**Independent Auditor's Report to the Members of BAE Systems (Property Investments) Limited
(continued)**

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Independent Auditor's Report to the Members of BAE Systems (Property Investments) Limited
(continued)**

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Love ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Date: 28 June 2024

Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2023

	Note	2023 £000	2022 £000
Revenue	3	421	399
Operating costs	4	(2,166)	(2,487)
Other income	5	5,404	3,639
Operating profit		3,659	1,551
Financial expense	6	(34)	(36)
Profit before tax		3,625	1,515
Tax	9	128	251
Profit for the financial year		3,753	1,766

The results for 2023 and 2022 arise from continuing activities.

The notes on pages 15 to 31 form part of these financial statements.

BAE Systems (Property Investments) Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet
as at 31 December 2023

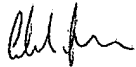
	Note	2023 £000	2022 £000
Non-current assets			
Investment property	10	35,282	35,359
Investments	11	-	-
Trade and other receivables	12	227,188	231,129
		<u>262,470</u>	<u>266,488</u>
Current assets			
Trade and other receivables	12	20,169	12,546
		<u>282,639</u>	<u>279,034</u>
Total assets			
Non-current liabilities			
Leases	13	(1,063)	(1,160)
Provisions	14	(1,506)	(1,704)
Deferred tax liabilities	15	(654)	(782)
		<u>(3,223)</u>	<u>(3,646)</u>
Current liabilities			
Trade and other payables	16	(2,481)	(2,988)
Lease liabilities	13	(96)	(62)
Provisions	14	(3,871)	(3,238)
		<u>(6,448)</u>	<u>(6,288)</u>
		<u>(9,671)</u>	<u>(9,934)</u>
Total liabilities			
		<u>272,968</u>	<u>269,100</u>
Net assets			

BAE Systems (Property Investments) Limited
Annual Report and Financial Statements
31 December 2023

Balance Sheet (continued)
as at 31 December 2023

	Note	2023 £000	2022 £000
Capital and reserves			
Issued share capital	18	-	-
Retained earnings		272,968	269,100
Total equity		272,968	269,100

Approved by the Board on 28 June 2024 and signed on its behalf by:



M H McGovern
Director

Registered number: 03653604

Statement of Changes in Equity
for the year ended 31 December 2023

	Issued share capital £000	Retained earnings £000	Total equity £000
At 1 January 2022	-	435,978	435,978
Total comprehensive income for the year	-	1,766	1,766
Dividends paid in the year (note 17)	-	(168,759)	(168,759)
Capital contribution	-	115	115
At 31 December 2022	-	269,100	269,100
Total comprehensive income for the year	-	3,753	3,753
Capital contribution	-	114	114
At 31 December 2023	-	272,967	272,967

The notes on pages 15 to 31 form part of these financial statements.

The non-distributable portion of retained earnings is £1,397k (2022: £1,283k).

Notes to the Financial Statements

1. General information

BAE Systems (Property Investments) Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 19. The address of the Company's registered office is shown on page 5.

The principal activity of the Company is set out in the Strategic Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest thousand.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework". The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities, and in accordance with the Companies Act 2006. Advantage has been taken of the FRS 101 disclosure exemptions as set out below:

- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements; and
 - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BAE Systems plc, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual undertaking and not as a group.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

These financial statements have been prepared using the going concern basis of accounting. The Company has net current assets of £13,721k, made a profit of £3,753k in the current year and is expected to be profitable in the future. In particular, the Company has sufficient net current assets in order to cover its liabilities for the next 12 months. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Key sources of estimation uncertainty

There were no significant accounting policies that are considered by the Directors to be critical because of the level of complexity and estimation uncertainty involved in their application and their impact on the financial statements other than the estimation used in the provision for potential reassessment of business rates. If a maximum risk scenario was applied then the provision would increase by £3,379k if a minimum risk scenario is used the provision would reduce by £2,013k.

Critical accounting judgments

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, that have had a significant effect on the amounts recognised in the financial statements.

Changes in accounting policies

Several standards, interpretations and amendments to existing standards became effective on 1 January 2023, none of which had a material impact on the Company. The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Company:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-Current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024; and
- IFRS 18: Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Notes to the Financial Statements

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Material accounting policies

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

2.2 Revenue and profit recognition

Revenue represents income derived from the provision of property leasing and management services by the Company.

Services rendered

Revenue is measured at the fair value of the consideration received or receivable, net of returns, rebates and other similar allowances.

Revenue and profits on intercompany trading are determined on an arm's-length basis.

2.3 Leases

The Company as lessee

All leases in which the Company is lessee (except as noted below) are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the Income Statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Company's incremental borrowing rate is used, which is the interest rate the Company would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

If a right-of-use asset meets the definition of investment property, the Company applies the requirements of IAS 40.

The carrying amounts of the Company's right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Income Statement on a straight-line basis over the lease term.

Notes to the Financial Statements

2. Accounting policies (continued)

2.3 Leases (continued)

The Company as lessor

Leases in which the Company is lessor are classified as finance leases or operating leases. If the lease transfers substantially all of the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

Lease income under operating leases is recognised in the Income Statement on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as a receivable discounted at the interest rate implicit in the lease. Finance lease income is recognised in the Income Statement over the lease term to produce a constant periodic rate of interest on the receivable.

2.4 Investment property

Cost

Land and buildings that are leased to BAE Systems plc Group or non-BAE Systems plc Group entities and land held for long-term disposal are classified as investment property. The Company measures investment property at its cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is calculated on a straight-line basis, to write off the cost over the shorter of the lease term or the estimated useful life of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date.

Impairment

The carrying amounts of the Company's investment property are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

2.5 Investments

Fixed asset investments in shares in subsidiary undertakings and in shares in participating interests are stated at cost less provision for impairment.

2.6 Impairment

The carrying amounts of the Company's investments are reviewed at each Balance Sheet date to determine whether there is any indication of impairment as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated.

Impairment losses are recognised in the Income Statement.

An impairment loss is only reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements

2. Accounting policies (continued)

2.7 Trade and other receivables

Trade and other receivables are stated at their cost less provision for expected credit losses. The Company measures a provision for expected credit losses at an amount equal to the lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Company writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

2.8 Trade and other payables

Trade and other payables are stated at amortised cost.

2.9 Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

Legal, contractual and environmental

The Company holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

2.10 Dividends

Dividends received and receivable are credited to the Company's Income Statement. Equity dividends paid on ordinary share capital are recognised as a liability in the period in which they are declared.

2.11 Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

2. Accounting policies (continued)

2.11 Tax (continued)

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously

3. Revenue

	2023	2022
	£000	£000
Revenue by business:		
Property	421	399
	<u> </u>	<u> </u>

	2023	2022
	£000	£000
Revenue by category:		
Rental income	421	399
	<u> </u>	<u> </u>

All revenue arose within the United Kingdom.

Notes to the Financial Statements

4. Operating costs

	2023	2022
	£000	£000
Depreciation of investment property (note 10)	551	544
Depreciation of right-of-use assets (note 10 and 13)	73	73
Management charge from BAE Systems Properties Limited	457	352
Provision movement	345	700
Other operating charges	740	818
	2,166	2,487
	2,166	2,487

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £25,200 (2022: £23,800) and £nil (2022: £nil) in respect of non-audit work. This was borne by BAE Systems Properties Limited.

5. Other income

	2023	2022
	£000	£000
Profit on disposal of land and buildings at Bishopton and Bridgwater	5,518	3,754
Impairment of investments	(114)	(115)
	5,404	3,639
	5,404	3,639

6. Financial expense

	2023	2022
	£000	£000
Interest expense on lease liabilities (note 13)	34	36
	34	36

7. Employees

None of the directors received any emoluments from the Company during the year. Four of the directors who served during the year were employed by BAE Systems plc, and one was employed by BAE Systems Properties Limited. They were remunerated through those companies.

The Company has no employees (2022: nil).

Notes to the Financial Statements

8. Directors' remuneration

The disclosures below represent an allocation of the emoluments received by the Directors to reflect their qualifying services to the Company.

	2023	2022
	£000	£000
Directors' remuneration	56	72
Company contributions to defined contribution pension schemes	2	1
Company contributions to defined benefit pension schemes	1	2
	<u>59</u>	<u>75</u>

Retirement benefits are accruing to the following number of directors under:

	2023	2022
	Number of directors	Number of directors
Defined contribution schemes	1	1
Defined benefit schemes	1	1
	<u>1</u>	<u>1</u>

	2023	2022
	Number of directors	Number of directors
Number of directors who exercised share options	1	2
Number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	1	2
	<u>1</u>	<u>2</u>

Notes to the Financial Statements

9. Tax

	2023	2022
	£000	£000
Deferred tax		
Origination and reversal of temporary differences	128	128
Adjustments in respect of prior years	-	123
	<hr/>	<hr/>
Tax expense	128	251
	<hr/> <hr/>	<hr/> <hr/>

The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.5% is used in the reconciliation below to reflect this change (2022: 19.0%). The deferred tax liability at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse. The resulting tax rate adjustment has been recorded in the Income Statement.

On 20 June 2023, Finance (No. 2) Act 2023 was substantively enacted in the UK, including legislation to implement the Organisation for Economic Co-operation and Development's Pillar Two income taxes rules. The Company, as part of the wider BAE Group is within the scope of the rules and the first period for which a Pillar Two tax return will be required for the BAE Group is the accounting period ending on 31 December 2024.

No provision for current tax is required. The Company has surrendered its tax losses to fellow group companies free of charge.

Notes to the Financial Statements

9. Tax (continued)

Reconciliation of tax result

The following reconciles the expected tax (expense), using the UK corporation tax rate, to the reported tax result:

	2023	2022
	£000	£000
Profit before tax	3,625	1,515
<hr/>		
UK corporation tax rate	23.52%	19.00%
<hr/>		
Expected tax (expense) on profit	(853)	(288)
Expenses not tax effected	(184)	(167)
Income not subject to tax	1,298	713
Transfer pricing adjustment	5	4
Imputed interest (income)	(2,698)	(1,000)
Chargeable gains	(3,057)	(75)
Chargeable gains reallocated to fellow group companies	3,057	75
Losses received from fellow group companies	2,552	835
Adjustments in respect of prior years	-	123
Property, plant and equipment	8	31
<hr/>		
Tax expense	128	251
<hr/> <hr/>		

Notes to the Financial Statements

10. Investment property

	Investment property £000
Cost	
At 1 January 2023	63,454
Additions	3,005
Disposals	(2,459)
At 31 December 2023	64,000
Depreciation and impairment	
At 1 January 2023	28,095
Depreciation charge for the year	624
At 31 December 2023	28,719
Net book value	
At 31 December 2023	35,281
At 31 December 2022	35,359
Fair value	
At 31 December 2023	43,322
At 31 December 2022	41,517

The fair values above are based on and reflect current market values as prepared by in-house professionals who have the appropriate professional qualifications and recent experience of valuing properties in the location and of the type being valued.

Notes to the Financial Statements

11. Investments

	£000
Cost	
At 1 January 2023	51,283
Additions	114
At 31 December 2023	51,397
Impairment	
At 1 January 2023	51,283
Impairment	114
At 31 December 2023	51,397
Net book value	
At 31 December 2023	-
At 31 December 2022	-

During the year, management conducted an impairment review of the investments held by the Company. As a result of this review, no reversals were created.

Impairment relates to the Company's investment in BAE Systems Properties Limited due to the recoverable amount being nil.

Subsidiary undertakings and participating interests at 31 December 2023

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiary undertakings and significant holdings as at 31 December 2023 is disclosed below. Unless otherwise stated, all subsidiary undertakings and significant holdings are owned directly by the Company and unless otherwise stated, have a financial year end of 31 December and a registered office address of Victory Point, Lyon Way, Frimley, Camberley, Surrey, England, GU16 7EX, United Kingdom.

Company name	Class of shares held	Proportion of class (%)
BAE Systems Properties Limited - directly held shares	Ordinary shares	100
Newcombe Properties Limited - indirectly held shares	Ordinary shares	100
Winner Developments Limited - indirectly held shares	Ordinary shares	33.33

Lemacrown Limited was dissolved on the 8 August 2023.

Notes to the Financial Statements

12. Trade and other receivables

	2023	2022
	£000	£000
Non-current		
Amounts owed by BAE Systems plc subsidiaries	227,188	231,129
Current		
Trade receivables	382	92
Amounts owed by BAE Systems plc subsidiaries	19,607	12,288
Prepayments	89	75
Accrued income	91	91
	20,169	12,546

Amounts owed by BAE Systems plc subsidiaries are payable on demand and are unsecured. No interest is applied to amounts owed and they are unsecured.

The impact of discounting non-current amounts owed by BAE Systems plc and its subsidiaries is not material given that the amounts are repayable on demand and therefore the contractual period over which these loans could be recalled is one day after the end of the reporting period, so has not been applied.

13. Leases

The Company leases land and buildings under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations.

	<u>2023</u>	<u>2022</u>
	Investment property £000	Investment property £000
Net book value as at 1 January	1,168	1,241
Depreciation expense for the year	(73)	(73)
Net book value as at 31 December	1,095	1,168

Notes to the Financial Statements

13. Leases (continued)

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Company's lease liabilities is presented in the table below.

	2023	2022
	£000	£000
Payments due:		
Within one year	96	96
Between one and five years	385	385
Later than five years	938	1,035
	<u>1,419</u>	<u>1,516</u>
Impact of discounting	<u>(260)</u>	<u>(294)</u>
Total discounted lease liability	<u>1,159</u>	<u>1,222</u>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2023, amounted to £97k (2022: £96k).

Amounts recognised in the Income Statement

	2023	2022
	£000	£000
Included in operating costs:		
Depreciation on right-of-use assets	73	73
	<u>73</u>	<u>73</u>
Included in revenue		
Operating lease income from investment property	58	55
Operating lease income from subleasing right-of-use assets	363	344
	<u>421</u>	<u>399</u>
Included in net finance costs:		
Interest expense on lease liabilities	34	36
	<u>34</u>	<u>36</u>

Notes to the Financial Statements

14. Provisions

	Legal, contractual and environmental £000	Other £000	Total £000
Non-current	1,700	4	1,704
Current	1,573	1,665	3,238
	<u>3,273</u>	<u>1,669</u>	<u>4,942</u>
At 1 January 2023	3,273	1,669	4,942
Released	(5)	-	(5)
Created	161	350	511
Utilised in year	(71)	-	(71)
	<u>3,358</u>	<u>2,019</u>	<u>5,377</u>
At 31 December 2023	<u>3,358</u>	<u>2,019</u>	<u>5,377</u>
Represented by:			
Non-current	1,500	6	1,506
Current	1,858	2,013	3,871
	<u>3,358</u>	<u>2,019</u>	<u>5,377</u>

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided and the timing of the outflows cannot be reliably estimated.

Other

This provision largely relates to an estimate of additional prior year business rates arising on leased property.

15. Deferred tax liabilities

Deferred tax assets/(liabilities)

	<u>Deferred tax liabilities</u>	
	2023 £000	2022 £000
Investment property	(654)	(782)
	<u>(654)</u>	<u>(782)</u>
Net deferred tax liabilities	<u>(654)</u>	<u>(782)</u>

Notes to the Financial Statements

15. Deferred tax liabilities (continued)

Movement in temporary differences during the year

	As at 1 January 2023 £000	Recognised in income statement £000	As at 31 December 2023 £000
Investment property	(782)	128	(654)
	<u>(782)</u>	<u>128</u>	<u>(654)</u>

	As at 1 January 2022 £000	Recognised in income statement £000	As at 31 December 2022 £000
Investment property	(1,033)	251	(782)
	<u>(1,033)</u>	<u>251</u>	<u>(782)</u>

16. Trade and other payables

	2023 £000	2022 £000
Current		
Trade payables	60	13
Amounts owed to BAE Systems plc subsidiaries	356	-
Other taxes and social security costs	1,561	785
Accruals	324	2,056
Deferred income	180	134
	<u>2,481</u>	<u>2,988</u>

Amounts owed to BAE Systems plc subsidiaries are payable on demand. No interest is applied to amounts owed and they are unsecured.

Amounts owed to BAE Systems plc subsidiaries relates to internal deferred income.

Notes to the Financial Statements

17. Dividends

	2023 £000	2022 £000
Final dividend of £nil (2022: £84,379,503.50) per ordinary share proposed and paid during the year relating to the previous year's results	-	168,759
	-	168,759

The Directors do not propose a dividend for 2023 (2022: £nil).

This dividend has not been accrued on the Balance Sheet.

18. Issued Share capital

	£1 Ordinary shares	Nominal value £
Issued and fully paid		
At 1 January 2022, 31 December 2022 and 31 December 2023	2	2
	2	2

19. Controlling parties

The immediate parent company is BAE Systems (Holdings) Limited and the ultimate parent company and controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing group financial statements. Both companies are incorporated in the United Kingdom and registered in England and Wales.

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from its registered address:

6 Carlton Gardens
 London
 SW1Y 5AD

Website: www.baesystems.com